

# The Analysis of The Consumption Transformation and Degradation in China

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**Abstract.** Due to the negative influence of the COVID-19 pandemic on Chinese people's daily lives, it is important to understand the changes in China's economy and consumption behaviour. The purpose of this article is to reveal the actual situation that is facing by China now, as well as the similar situation that the whole world is facing, which is called the consumption degradation. Thus, the findings of this article will offer some actual help to improve the situation in consumption. The article analyses relevant literature about China's economy, such as the economic condition that being influenced by the pandemic. Further, this paper analyses people's living habits that are changed by the pandemic, such as the phenomenon that people start to buying goods online and a tendency of purchasing cheaper products. The article suggests that to improve the consumption level of the whole economy, the producers could set some rules such as minimum purchasing requirement along with effective advertisement to allow further promotion in the aggregate consumption.

**Keywords:** Consumption transformation; consumption degradation; consuming habits.

## 1. Introduction

Consumption is the main component of a country's Gross Domestic Product (GDP). Consumption plays an important role in China. In the 1980s, China's average real growth rate of household consumption expenditures reached a height of 10.9% [1]. According to this, the article shows that the consumption occupies a large part of the GDP, and a 1% change in consumption is five times greater than a 1% change in investment [2]. Consumption plays an important role in influencing the macro-economy. It can help the researchers to know the changes in the macroeconomic condition.

The COVID-19 pandemic is one of the most influential events of the 21st century in China. As the COVID-19 had influenced Chinese people living habits and living standards during the time period from 2019 to 2022, such as many people still wear masks when they go outside after the disease. In addition, a special area about the e-commerce business had been distributed in China during this period. For example, due to the pandemic, people's action had been restricted, so that their consumption habits transferred from physical shops to the online shops. After the pandemic, people start to return to the physical stores for consumption.

Understanding consumption behaviour may help some firms and the individual sellers to find out more changes on some areas that can bring benefits to them. For example, when people learn more about the online trading of clothes, they will find out which type of clothes is most popular recently. This will also help some readers can understand some recently changes about the economy. A version of the consumption-based asset pricing model implies a linear relationship between expected returns and expected consumption growth [3].

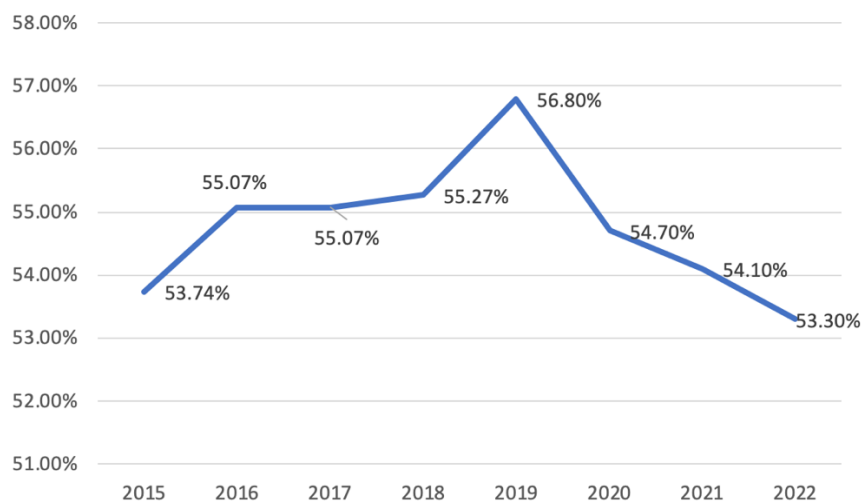
The researchers learn some important things about the infrastructure of the consumption, from the physical economy to the Internet economy, and then to digital economy development. The Internet economy is overcoming most of the information asymmetry unique to traditional consumer markets to achieve high market transparency [4]. With mobile phone's progresses, the using rate has influenced the economy a lot. For example, in China, as the mobile technology progresses, people use online payment to buy goods instead of using the cash. This might cause the trade between people will be finalised online. Due to the pandemic, people changed their consumption habits. They mainly bought things via the online shops such as Taobao and TMall. Since was easy and safety, people only

use their smart phone to finish the trade instead of travelling to physical store and pay cash. However, after the pandemic, people began to change their consumption habits back to physical shopping, from the online shops to the off-line shops.

However, research about this topic is little. It is very hard to find some data to evaluate the situation in China's consumption market. This article mainly discusses on the people's consumption habits transformation and the degradation of consumption, and tires to combine these two topics. The paper then discusses how the pandemic had led to transformation and degradation of consumption habits, which then affected China's economy.

## 2. Current Consumption

Figure 1 below shows the percentage of the consumption as a share of China's GDP. As seen in the figure, in 2015, it occupied about 53.74%. In the next two years, they were both 53.07%. In 2018, it increased to 55.27%. The pandemic appeared in late 2019, so it had not affected the GDP during the whole year. The proportion of consumption in 2019 was 55.8%. Although the ratios were very high in the four years before 2019, in 2020, there was a in the data. In 2020, it was about 54.7%, which decreased by about 1.1%. The number kept decreasing for the following 2 years. The figure shows that the consumption was affected severely during the pandemic that the contribution to GDP had decreased since then.



**Fig. 1** Consumption as share of GDP (Source: statista.com)

For different kinds of products, the consumers have different tendencies in consumption. For example, some game players would choose to use their money to buy games instead of some useful tools for their fixing furniture. People have different consumption during the pandemic. During the epidemic, Chinese people, due to their fear of disease, tended to excessively purchase medical products such as masks to ensure safety. Some also purchased skincare products and health products to ensure their quality of life at home [5]. In 2020, due to the pandemic, the petrol price had significantly decreased, and this caused the total oil market a downturn [6]. This might be due to the changes in people's living habits. Before the pandemic, they might choose to go outside by driving cars, but during the pandemic, people were afraid of going outside for holiday, but preferred to stay at home for rest instead and waited the pandemic to pass over. The two examples exhibit how household consumption and energy consumption changed due to the pandemic.

### 3. Trasformation and Degradation

#### 3.1. Consumption Transformation

During the pandemic, people began to build a habit of consuming on the Internet. The COVID-19 had influenced the retailer of the local shops. This caused rapid increases in online shops and promoted progress in e-shops [7]. For example, many shops had built on some online stores in social media platforms, such as TikTok and YouTube. The video watchers could choose to consume in these platforms, because it is easier to use than other forms of shopping apps. The bloggers and the video makers will show the watchers the benefits of the goods and make the watcher into actual consumers. However, there are many problems for trading on the internet, for example, the quality of the goods may not be secured.

People want to use the internet to buy things, because they think it is easy and timesaving compared to go to the local shops to view and select the goods. However, online trading has two side effects for consumers. Due to the consumption on the Internet, the consumers will not have a chance to touch the goods and they have to pay first and wait for a long time to receive the goods. Sometimes, these goods were not in a high quality, which caused consumers not willing to buy things on the Internet anymore. Sometimes, the way to return the goods is very complicated, so this might also force the consumers not to choose online trading anymore.

Due to the problems of trading on the Internet, people have lost a lot of their benefits, so after the pandemic, they chose to consume in some physical shops such as IKEA and Sam's, typically for large items. Some people keep consuming because of a kind of retaliatory psychology, that they want to fill their empty of heart through buying goods. After the pandemic, people prefer go outside instead of buying things on the Internet to enjoy the experience of actual viewing, touching and selecting goods in physical stores.

#### 3.2. Consumption Degradation

The pandemic has negatively shocked China's economy, and a new phenomenon occurs, which is called consumption degradation. This paper uses the cosmetic industry as an example to explain such phenomenon. The pandemic has had a great impact on the Chinese cosmetics industry, leading to a decrease in consumption and hindering its development. Cosmetics have already become a daily necessity for many people and skincare takes quite large a proportion of people's income. During the pandemic, some people stopped working, earned less money than before, and their perception of consumption had shifted from luxury skincare to lower priced products, such as from French brands to local domestic brands. Most importantly, with the rise of social media, Chinese cosmetics brands must further develop in this field to compete with foreign brands [8]. Since people did not have an intensive force on consuming expensive products, it might cause some firms have to follow the path of the consumers. The pandemic had a very strong negative side effect to the economy, which nearly led the economy stepping into recession [9]. The cause of the consumption degradation is due to the people's falling purchasing power that could not satisfy people's wants, and the economy has shown a replacement towards lower-priced products.

This is a most significant problem not only seen in China but also in some Western countries. For example, people used to prefer to buy some high- quality rice in the price of \$10, but after the COVID-19, they preferred the cheaper rice in the price of \$3. This is a kind of the consumption degradation. The pandemic had caused the situation more serious, such as the house rent had been a very heavy burden to Chinese people, so that people choose to consume products with relatively low prices instead of expensive ones [10].

People have changed their consumption habits and even ways of consumption due to the epidemic. For example, a cup of milk tea costs only 15 yuan now, but it used to cost 35 yuan in the past. This is a price reduction for businesses to maintain the survival of their products. Some businesses have shown many joint activities with anime to promote consumption and survival. Some online shopping platforms also provide customers with free coupons, which says the same story. All of these situations

resulted from people not willing to buy expensive things and lead to overall consumption degradation. Consumers are more sensitive to prices now than before. When the type of goods that is price-elastic in demand, the change in price will affect the quantity demanded massively. When it is inelastic, price drop will not bring profits.

#### **4. Discussion and Suggestions**

After the pandemic, the total consumption might increase a little, but after a period of time, it will decrease. The local shops have the better service to the consumers than the online shops. In the local physical shops, the problems that the consumers faced can be solved, such as checking the quality of the goods. However, the whole entire consumption degradation is seen in many low-income families, since the rich families do not have to worry about the money they spent on the goods as they have enough capacity of disposable income. Right now, because the country proposed many policies to promote the survival of the economy, but these ways may further lead to consumption degradation. It is still one of the most important and hard tasks to do with the economy after the pandemic. To promote the economy, the government has some policies to help with solving the problem. For example, policies in the real estate sector advocate for improving product quality, supporting clean energy and green consumption, and encouraging people to travel around the country.

Consumer behavior has changed, and the main reason for the change is that economic strength has changed, and people's perception of consumption has changed. Macroeconomic policies always have a lag, which need longer time frame to see the effectiveness and will not show up in a short period of time. Thus, not all policies have the effect to solve the problems and help people to increase their living standards in the short term.

This paper suggests to the government that the government can set some purchase limits for some goods such as food and water. The government can set some boundaries about the least quantity of foods. The government also need to advice the public to consume in rational ways, and the society should face the consumption degradation as a normal phenomenon after an economic shock. The consumers need to try to consume more according to their demand and devote their power to the society. Suppliers should pay more attention on the quality of goods and benefit the consumers.

#### **5. Conclusion**

This article discusses the economy during the pandemic and the situation of the consumption transformation and degradation. Due to little research on the combination of the two areas in Chinese economy, this paper contributes to the literature by filling the gap between people's consumption degradation and the economic condition they are in. The aim of the article is to review the whole situation of the consumption in China which is not optimistic during the pandemic and after the pandemic. There are still many tasks for the consumers, producers and the government to do, such as increase the supply the quantity of goods and support the consumers to buy more goods in order to solve the consumption downgrade. The findings of this study suggest that, for the current situation in consumption transformation and degradation, new legislations and control on advertisement in the public could have crucial impact on the consumption. Also, people have to face the life in an optimistic way, because when they feel hopeful about the future, they will have more energy to consume and enjoy their lives.

However, this article lacks data and is limited by the availability to literature. Some details about changes in the economy are uncertain and the how the actual consumption degradation affect people's daily lives are unclear. In the future, research could keep going on understanding the phenomenon of consumption degradation and pay more attention on the awakening and surviving of China's economy. It could not only focus on the area about China, but also take into account other countries.

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